Moreover, as all wars commence with an unpredictable chance of involving others than the original belligerents in the struggle—so intimately interwoven are the territorial obligations and rights of nations—neighbouring States feel compelled to amass increased financial resources for provision against probable contingencies. Hence continental national banks and financial houses seek to fortify their monetary position. As they can always obtain gold from England— the world's centre of finance—by cashing here the commercial bills which they hold upon British merchants in payment for merchandise, a drain of gold from the Bank of England at once ensues—the bank notes received as the proceeds of these bills being presented at the bank for cash. This outflow of gold must, if possible, be checked (in order to preserve the integrity of our own financial obligations), and the current rate of interest accordingly is raised; the expansion of our own trade is thus restricted through the heavier burden of interest upon the capital by which it is carried on.

A concrete illustration will be useful. A foreign banking firm of high standing may desire to subscribe to a new loan proposed to be issued by one of the contending nations for warlike preparations—probably by the Government of that firm's country. Its free local capital is not likely to be adequate for the purpose; but the firm will in all probability possess among its assets substantial sums invested in the securities of other stable Governments—let us restrict the case here to investments in British securities—and with the object of taking up part of the fresh loan of its own Government, the firm will convert its British Government investments into cash, and by withdrawing the proceeds in gold, both depress the prices of those securities, and aid still further in their depression by the influence of the withdrawal from the Bank of England's Eeserve, and the necessary augmentation of the bank rate.

In the recent war between Eussia and Japan, Consols declined 1J- points,[1] as it is termed, in the London market, in

practically immediate succession to the first attack upon

[1] Points : If, for example, a security stood at the price of 93J, a fall of U points would mean that the price had been reduced to 92 J (that is, 93} minus lj).